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THE MODERN APPROACH TO FINANCIAL ADVICE

FACTSHEET

Financial freedom

Deciding what to do with pension savings – even if you're still working

It might seem like a far-off prospect, but knowing how you can access your pension pot can help you understand how best to build for the future you want when you retire.

On 6 April 2015, the Government introduced major changes to people's defined contribution (DC) private pensions. Once you reach the age of 55 years, you now have much more freedom to access your pension savings or pension pot and to decide what to do with this money – even if you're still working.

Depending on the scheme, you may be able to take cash lump sums, a variable income through drawdown (known as 'flexi-access drawdown'), a guaranteed income under an annuity or a combination of these options. This means being faced with the choice of deciding how much money to take out each year and setting an appropriate investment strategy. It goes without saying that your income won't last as long if you take a lot of money out of the pension pot early on.

WHAT ARE YOUR RETIREMENT INCOME OPTIONS?

There are many things to consider as you approach retirement. You need to review your finances to ensure your future income will allow you to enjoy the lifestyle you want. You'll also be faced with a number of different options available for accessing your pension. Being faced with such an important decision, it's essential you obtain professional financial advice and guidance. We've provided an overview of the main options.

KEEP YOUR PENSION POT WHERE IT IS

You can delay taking money from your pension pot to allow you to consider your options. Reaching age 55 or the age you agreed with your pension provider to retire is not a deadline to act. Delaying taking your money may give your pension pot a chance to grow, but it could go down in value too.

RECEIVE A GUARANTEED INCOME FOR LIFE

A lifelong, regular income (also known as an 'annuity') provides you with a guarantee that the income will last as long as you live. A quarter of your pension pot can usually be taken tax-free, and all the annuity payments will be taxed.

RECEIVE A FLEXIBLE RETIREMENT INCOME

You can leave your money in your pension pot and take an income from it. Any money left in your pension pot remains invested, which may give your pension pot a chance to grow, but it could go down in value too. A quarter of your pension pot can usually be taken tax-free, and any other withdrawals will be taxed whether you take them as income or as lump sums. You may need to move into a new pension plan to do this. You do not need to take an income.

TAKE YOUR WHOLE PENSION POT IN ONE GO

You can take the whole amount as a single lump sum. A quarter of your pension pot can usually be taken tax-free – the rest will be taxed. You will need to plan how you will provide an income for the rest of your retirement.

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TAKE YOUR PENSION POT AS A NUMBER OF LUMP SUMS

You can leave your money in your pension pot and take lump sums from it as and when you need until your money runs out or you choose another option. You can decide when and how much to take out. Any money left in your pension pot remains invested, which may give your pension pot a chance to grow, but it could go down in value too. Each time you take a lump sum, normally a quarter of it is tax-free and the rest will be taxed. You may need to move into a new pension plan to do this.

CHOOSE MORE THAN ONE OPTION AND COMBINE THEM

You can also choose to take your pension using a combination of some or all of the options over time or over your total pot. If you have more than one pot, you can use the different options for each pot. Even if you only have the one pot, it is possible to have a combination of guaranteed income for life with a flexible income.

SIGNIFICANT EFFECT ON THE AMOUNT OF INCOME AVAILABLE

The earlier you choose to access your pension pot, the smaller your potential fund and income may be for later in life. This could have a significant effect on the amount of income available to you, meaning it may be less than it could have been, and it could run out much earlier than expected.

Taking an appropriate income or money from your pension is very complex. We'll help you access your options. Remember: if you choose to only withdraw some of your money, what's left will remain invested and could go down as well as up in value. You could also get back less than has been invested. Also, if you buy an income for life, you can't generally change it or cash in, even if your personal circumstances change. And the inheritance you can pass on depends on what you decide to do with your pension money. ■

EXPERT AND PROFESSIONAL ADVICE IS THE KEY

You don't have to do anything with your pension savings when you reach age 55. If you don't need the money yet, you can leave it where it is. But whatever your future plans are, it's essential to receive expert and professional advice. To review your situation and consider the ways we can to help you make the most of your retirement income, please contact us – we look forward to hearing from you.

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FACTSHEET

Generous grandparents

The bank that likes to say 'yes'

Forget the Lamborghini – 2.4 million UK grandparents[1] have either raided their pension to support their grandchildren or plan to in the future. According to research from LV=, a quarter of generous grandparents (25%) who have already given away money to their grandchildren[2] have taken the funds from their pension. A further one in six (16%) plan to use their pension for this reason once they reach retirement age.

SUBSTANTIAL AMOUNTS

Open-handed grandparents are willing to give away substantial amounts to their grandchildren, whether from their pensions, savings or wages, with the average grandparent having already spent £1,633. More than one in 20 (6%) have given gifts of more than £10,000.

The generosity shows no sign of stopping, with many grandparents (56%) planning to give away even more money in future. The average grandparent expects to give away £2,938 in the coming years, with charitable grandmas expecting to give away £173 more than grandads on average.

LIVING INHERITANCE

Pension savings are used to help with a wide range of things, from helping grandchildren get on the housing ladder (21%) and other high-ticket items like university fees (20%) or cars (17%). A similar number would help out with more day-to-day expenses such as bills (21%) and hobbies (19%).

Grandparents often view the financial gifts they make as a 'living inheritance', with more than a third (37%) wanting to be around to see their grandchildren enjoy the money[3].

RETIREMENT FOCUS

It's heart-warming to see grandparents so willing to help out their grandchildren both day-to-day and with large ticket purchases. With one in five using their pension to help out, it's important that these kind individuals plan for their retirement and have enough money left for themselves, as even smaller outgoings like bills can become harder to meet later in life, as well as the flexibility to access it.

The generosity of grandparents in Britain is clear to see, and it is great that so many feel comfortable enough to be able to help out their family and plan to continue doing so. However, the average retirement is now much longer than for past generations, and people's lifestyle and associated costs are likely to change over this period. ■

REMAINING GENEROUS, BUT ALSO ADAPTING TO YOUR CHANGING NEEDS

The flow of financial support across the generations is a striking feature of the modern family. If you find yourself in this position and are approaching retirement, it's important to structure your income in a way that offers you enough financial flexibility to enable you to remain generous, but also adapt to your changing needs. To look at the options available, please contact us.

Source data:

[1] According to ONS Population Pyramid, there are 49,533,900 people aged over 18 in the UK. The research found that 39% of a sample of 2,002 adults were grandparents, indicating there are 19,318,221 grandparents in the UK. 56% of grandparents have helped or plan to help their grandchildren, and 22% of these would use their pension to do so. Therefore, 2.38 million grandparents have helped or plan to help their grandchildren, using their pension.

[2] According to research carried out by Opinium Research on behalf of LV=, 25% of grandparents have already taken money from their pension to give to their grandchildren.

[3] Statistics from research carried out on behalf of LV= by Opinium Research in June 2014 (total sample size = 2,043). The press release for this research was issued on 20 June 2014.

The research was carried out by Opinium Research from 13–16 October 2015. The total sample size was 786 British grandparents over the age of 30, and the survey was conducted online. Results are weighted to a nationally representative criteria.

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FACTSHEET

Diversification, diversification, diversification

Portfolio building requires different characteristics to evaluate

There are many ways to invest and different types of investments. But when looking to build an appropriate diversified portfolio, investors have a number of different characteristics to evaluate. For example, is the investment designed to provide growth or income? Is it domestic or international? Does it have a maturity? Another consideration is whether the investment is actively or passively managed.

Sometimes, that simple, fundamental choice can make a difference in portfolio performance. During a particular market climate, one of these two methods may be widely praised, while the other is derided and dismissed. In truth, both approaches have merit, and all investors should understand their principles.

ECONOMIC AND MARKET CONDITIONS

Active fund managers select individual stocks. Stock selections decisions in active funds are based on factors such as economic and market conditions as well as company-specific issues, (for example, the profitability of a company and the strength of its management). Alternatively, passive or 'index-tracking' funds aim to replicate a specific market index.

An active fund is managed with the aim of generating returns greater than the relevant markets, as measured by an index. Active fund managers base their stock buying and selling decisions on several factors, including market conditions, political climate, state of the economy, and company-specific factors that include profitability and market share.

INDUSTRY SECTOR OR COMPANY SIZE

Depending on the fund's objective, an active fund manager may have little or no constraint on their investment choice. Where this is the case, they can select what they consider the most promising opportunities, regardless of industry sector or company size. They aim to maximise gains in rising markets and limit the effects when markets are falling.

Actively managed funds have the potential to outperform and, conversely, under perform compared to a market index. They have the flexibility to invest where the investment manager believes there are the best market opportunities. They have the ability to minimise losses in a falling market by investing in shares outside the index, and typically have higher annual management charges than for passive funds, in return for the investment managers' potential to outperform the market.

TRYING TO MATCH THE INDEX

A passive, or index-tracking, fund is managed with the aim of replicating the performance of a specific index. To track the FTSE 100, for example, an investment manager will aim to invest in the same shares, in the same proportions, as this index. Passive fund managers won't make any 'active' decisions, as they're only trying to match the index. The fund will generally rise and fall with the index.

They perform well when markets rise and poorly when they fall, but funds can be less diversified than active funds, as the relevant index may be dominated by just a few large companies. A change in the investment manager should have no impact on its performance. In addition, passive funds generally offer lower annual management charges and typically have a lower turnover of shares that can mean lower transaction costs apply.

RISK IS INHERENT WITH ANY INVESTMENT

It's important to remember that a degree of risk is inherent with any investment, and the potential for greater returns comes with a higher degree of investment risk. While a passive fund is considered to have less investment risk associated with it than an actively managed fund, there are still risks (such as stock market risk) involved.

As with most investment decisions, there is no right or wrong selection. The choice is down to the individual investor, their investment objectives, attitude to risk, and the economic and market environment at the time. It is generally accepted that asset allocation has the biggest impact on the variability of returns within an investment portfolio. ■

LOOKING TO REVIEW YOUR INVESTMENT OPTIONS OR PORTFOLIO?

There are many ways to invest and different types of investments. If you are unsure of what is right for you, or are interested in adding further assets to your portfolio and would like to review your options or portfolio, please contact us.

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FACTSHEET

Pension freedoms

Running out of money remains the biggest retirement fear for over-55s

On 6 April 2015, the Government introduced 'pension freedoms', and with it major changes to people's private pension provision. Once you reach the age of 55 years, you now have much more freedom to access your pension savings or pension pot and to decide what to do with this money

Three years on from the pension freedoms revolution, people are saving more for their retirement while the over-55s are working longer to fulfil their retirement plans, new exclusive research shows[1]. The new rules have led to consumers taking a variety of different choices when investing their pension pots.

WORKING FOR LONGER THAN ORIGINALLY PLANNED

The research reveals that over-55s are planning to work for longer than they had originally planned – and about 12% say they or their partner will work full-time or part-time past their original planned retirement date. More than one in ten (11%) working over-55s say they have started saving into a pension for the first time, encouraged their partner to save more, increased pension contributions or restarted pension saving since the rules came into effect from April 2015.

One in seven (14%) are also making more effort to learn about retirement savings. However, the freedoms, which give everyone aged 55-plus flexibility on how to use their defined contribution pension funds, are not a total success with savers and the retired. Nearly two out of three (64%) over-55s say they are confused by the regulations, and the overwhelming majority (82%) want an end to any further government changes to pension rules. More than one in three (42%) are concerned about running out of money during retirement, while 41% worry about paying for long-term care.

TAKING YOUR PENSION

Once you reach retirement, how you use your funds can often be the largest single financial planning decision you make in your lifetime. There is a wide range of options available that could enable you to achieve your aspirations in retirement.

Greater pension freedoms and choice has made the retirement income environment more complex for many retirees, with unprecedented control being handed over to how you utilise your pension savings. So what are your options?

- Leave your pension pot untouched
- Use your pot to buy a guaranteed income for life – an 'annuity'
- Use your pot to provide a flexible retirement income – 'flexi-access drawdown'
- Take small cash sums from your pot
- Mixing your options

RESPONSIBILITY FOR MAKING A PENSION FUND LAST

Pension freedoms have in many cases shifted the responsibility for making a pension fund last throughout retirement directly onto retirees. Previously, most people bought an annuity to guarantee an income for the rest of their lives. Now they can drawdown as much money as they like, but the risk is that they run out of money in their lifetime. Before you make your choice, we'll help you consider all your options carefully – an important decision like this shouldn't be rushed.

Many over-55s are also preparing to work longer and save more, which highlights that they recognise this risk and are responding in a rational and responsible way. The best thing most people can do to ensure a comfortable retirement is to take professional financial advice, while also trying to save as much as they can into a pension, especially a company-based scheme where they'll immediately take advantage of contributions from their employer. ■

Source data:
[1] Consumer Intelligence conducted an independent online survey for Prudential between 23 and 25 February 2018 among 1,000 UK adults aged 55+, including those who are working and retired.

WHEN COULD YOUR RETIREMENT INCOME RUN OUT?

If you're approaching retirement and now faced with greater freedoms to spend your retirement pot as your wish, it is essential to obtain professional financial advice to make an informed decision. Cashing in your pension pot will not give you a secure retirement income. To discuss your situation, please contact us – we look forward to hearing from you.

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FACTSHEET

Your money, your choice

Supporting your future financial requirements

You can pay into as many pension schemes as you want; it depends on how much money you can set aside. There are several different types of private pension to choose from, but in light of recent government changes the tax aspects can require careful planning. So what do you need to consider?

BUILDING UP A SUBSTANTIAL PENSION POT

The UK Government currently places no restrictions on the number of different pension schemes you can be a member of. So, even if you already have a workplace pension, you can have a personal pension too, or even multiple personal pensions. These can be a useful alternative to workplace pensions if you're self-employed or not earning, or simply another way to save for retirement.

Any UK resident between the ages of 18 and 75 can pay into a personal pension – although the earlier you invest, the more likely you are to be able to build up a substantial pension pot. However, ignoring any unused annual allowance that may be available to carry forward, the maximum that can normally be contributed to all your pensions during the tax year and receive tax relief (known as the 'annual allowance') is £40,000. Some people who are high earners with 'threshold income' above £110,000 and 'adjusted income' of £150,000 or more will be subject to tapering and have a reduced Annual Allowance.

TAX RELIEF ON PENSION CONTRIBUTIONS

A private pension is designed to be a tax-efficient savings scheme. The Government encourages this kind of saving through tax relief on pension contributions.

In the 2018/2019 tax year, pension-related tax relief is limited to either 100% of your UK earnings, or £3,600 per annum – whichever is highest. Contributions are limited by the current annual (£40,000) and lifetime allowance (£1,030,000) for most people, but not all, so it will be worth checking how you are affected with your financial adviser.

PENSION TAX RELIEF RATES:

- Basic-rate taxpayers will receive 20% tax relief on pension contributions
- Higher-rate taxpayers also receive 20% tax relief, but they can claim back up to an additional 20% through their tax return
- Additional-rate taxpayers again receive 20% tax relief, but they can claim back up to a further 25% through their tax return
- Non-taxpayers receive basic-rate tax relief, but the maximum payment they can make is £2,880, to which the Government adds £720 in tax relief, making a total gross contribution of £3,600

ANNUAL ALLOWANCE

The annual allowance is the maximum amount that you can contribute to your pension each year while still receiving tax relief. The current annual allowance is capped at £40,000, but may be lower depending on your personal circumstances.

In April 2016, the Government introduced the tapered annual allowance for higher earners. For individuals with 'threshold income' above £110,000 and 'adjusted income' of £150,000 or more, the standard £40,000 annual allowance will be reduced by £1 for every £2 of 'adjusted income' they have over £150,000. However, the maximum reduction will be £30,000 – taking the highest earners' annual allowance down to £10,000.

Any contributions over the annual allowance won't be eligible for tax relief, and you will need to pay an annual allowance charge. This charge will form part of your overall tax liability for that year, although there is the option to ask your pension scheme to pay the charge from your benefits if it is more than £2,000 and contributions to that scheme exceeded £40,000. It is worth noting that you may be able to carry forward any unused annual allowances from the previous three tax years in order to reduce, or eliminate, any annual allowance charge payable.

LIFETIME ALLOWANCE

The lifetime allowance (LTA) is the maximum amount of pension benefit that can be drawn without incurring an additional tax charge, currently £1,030,000. What counts towards your LTA depends on the type of pension you have:

Defined contribution – personal, stakeholder and most workplace schemes The amount of money in your pension pots that goes towards paying you, however you decide to take the money

Defined benefit – some workplace schemes Usually 20 times the pension you get in the first year plus your lump sum – check with your pension provider

Your pension provider will be able to help you determine how much of your LTA you have already used up. This is important because exceeding the LTA will result in a charge of 55%

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on any lump sum and 25% on any other pension income such as cash withdrawals. This charge will usually be deducted by your pension provider before you start getting your pension.

PENSION PROTECTION

It's easier than you think to exceed the LTA. If you are concerned about exceeding your LTA, or have already done so, it's essential to obtain professional financial advice. It may be that you can apply for pension protection. This could enable you to retain a larger LTA and keep paying into your pension – depending on which form of protection you are eligible for. We can assess and review the options available to your particular situation.

ALTERNATIVE SAVINGS

In addition to pension protection, if you have reached your LTA (or are close to doing so), it may also be worth considering other tax-effective vehicles for retirement savings, such as Individual Savings Accounts (ISAs). In the current tax year, individuals can invest up to £20,000 into an ISA.

The Lifetime ISA launched in April 2017 is open to UK residents aged 18 or over but under 40, and will enable younger savers to invest up to £4,000 a year tax-efficiently –any savings you put into the ISA before your 50th birthday will receive an added 25% bonus from the Government. After your 60th birthday, you can take out all the savings tax-free, making this an interesting alternative for those saving for retirement.

PENSION BENEFICIARIES

There will normally be no tax to pay on pension assets passed on to your beneficiaries if you die before the age of 75 and before you take anything from your pension pot – as long as the total assets are less than the LTA. If you die aged 75 or older, the beneficiary will typically be taxed at their marginal rate. ■

WHERE ARE YOU ALONG YOUR RETIREMENT JOURNEY?

There is no one-size-fits-all tax-efficient solution when it comes to planning for your retirement. So wherever you are in your retirement journey, we're here to support you, whether it's starting a pension, saving more into your plan or helping with your options for retirement. To review your unique situation, please contact us.